
IWC
COMMUNICATIONS
LIMITED
1977
ANNUAL
REPORT

Directors and Officers

IWC COMMUNICATIONS LIMITED, SUITE 3020, 2 BLOOR STREET EAST, TORONTO, ONTARIO M4W 1A8

Directors

J. Trevor Eyton, Q.C., *Partner, Tory, Tory, DesLauriers and Binnington
(Barristers and Solicitors)*

Donald H. Gordon, *Vice-President and Secretary, Allpak Products Limited
(Diversified Holding Company)*

John W. Hardie, M.B.A., *Vice-President, Finance and Treasurer of the Corporation*

Joseph J. MacBrien, *Vice-President, Johnston MacBrien Limited
(Investment Counsel)*

Peter J. Nadler, C.A., *Partner, Nadler, Gould & Company (Chartered Accountants)*

Allan Slaight, *President and Chief Executive Officer of the Corporation*

Lloyd F. Stevens, F.C.A., *President, Allpak Products Limited
(Diversified Holding Company)*

Michael G. Thorley, *Partner, Tory, Tory, DesLauriers and Binnington
(Barristers and Solicitors)*

Officers

Allan Slaight, *President and Chief Executive Officer*

John W. Hardie, M.B.A., *Vice-President, Finance and Treasurer*

J. Trevor Eyton, Q.C., *Secretary*

G. Elizabeth Hannan, R.I.A., *Assistant Treasurer*

Auditors

Clarkson, Gordon & Co., Toronto, Ontario

Solicitors

Tory, Tory, DesLauriers & Binnington, Toronto, Ontario

Transfer Agents

Guaranty Trust Company of Canada, Toronto, Ontario

Stock Listing

Toronto Stock Exchange

Operating Subsidiaries

CFGM Broadcasting Limited

Sarnia Broadcasting (1964) Limited

Barrie Cable TV Limited

Orillia Cable TV Limited

Terra Communications Limited

IWC Communications Limited is a constrained share Corporation at least 80% of the shares of which must be beneficially owned by persons who are Canadian citizens or who are corporations controlled in Canada.

President's Report:

IWC COMMUNICATIONS LIMITED

Net income for the year ended August 31, 1977 before extraordinary items was \$491,205, compared to \$455,156 for the previous year.

Significant Events During the Year

The attached financial statements reflect the results of several significant events which occurred during the year:

1. Sale of Interest in Global Communications Limited

On March 22, 1977 IWC sold its interest in Global Communications Limited for a cash price of \$6,836,100. This resulted in a net gain of \$2,330,940 after deducting costs on the sale and related income taxes. Certain capital losses incurred by the company in prior years, as well as the loss on sale of Radio CFOX Inc. (see below), have been applied to substantially reduce the income taxes which would otherwise be payable on such gain on sale.

The net funds from the sale have been applied to repay long-term debt and to finance fixed asset additions, and the balance (\$4,650,000) has been invested temporarily in short-term investments.

2. Sale of Radio CFOX Operations

During the year IWC reached an agreement to sell the radio assets and operations of Radio CFOX to Canada All-News Radio Limited. This transaction received regulatory approval and closed on September 15, 1977. The estimated net loss of \$517,594 on disposal has been fully provided for in the accompanying statement of income. The operating results of CFOX to the date of the agreement of sale are shown separately as loss from discontinued operations in the statement of income.

3. CILQ-FM

The 1977 statement of income includes the operating losses of CILQ-FM (approximately \$109,000) from the date it went on air in May to August 31, 1977.

Radio Division

Our Radio Division presently consists of CFGM-AM (Richmond Hill), CILQ-FM (Toronto), and CHOK-AM (Sarnia).

CFGM's frequency change from 1310 to 1320 is now scheduled for completion in February 1978 and will result in significant improvement in CFGM's signal coverage. According to the latest published ratings, CFGM now enjoys the largest audience in its history, up nearly 17% from the levels of one year ago.

Your company's new Toronto FM station, CILQ, was successfully launched on May 22, 1977 and is enjoying a most favourable acceptance by its listening audience as well as by local and national advertisers. We are pleased to report that results of the recently published ratings indicate audience levels are above expectations. Management presently anticipates that the station will operate profitably during the 1978 fiscal year.

CHOK continues to be the dominant station in the Sarnia market. During fiscal 1977, CHOK again demonstrated its ability to maintain healthy growth in both revenues and profitability.

Cable Division

Our Cable Division consists of operations in Barrie, Orillia and Mississauga. All three systems continue to contribute significantly to the operating income of the company.

On March 16, 1977 the licence for Terra Communications Limited was renewed for a period of four years. The licences for Barrie and Orillia are effective until March 31, 1980.

Mr. Glyn Hunt, formerly the Assistant General Manager of our three cable systems, has been named General Manager of the Cable Division replacing Mr. G. E. (Sandy) Saunders, whose sudden and untimely death occurred on September 9, 1977. Mr. Saunders, who was associated with our Cable Division as General Manager and Vice-President — Cable, will be sadly missed not only by our company, but by the entire CATV industry to which he contributed a great deal.

Important Current Developments

Several significant developments occurred subsequent to our fiscal year-end.

1. The holders of approximately 67% of the outstanding shares of IWC agreed to sell their shares to Selkirk Holdings Limited ("Selkirk") for a cash price of \$2.30 per share, subject to approval of this transaction by the Canadian Radio-television and Telecommunications Commission ("CRTC"). Selkirk also agreed to make a public offer to purchase all of the remaining outstanding shares of IWC at the same cash price of \$2.30 per share.
2. In a related transaction IWC entered into an agreement to sell its cable television properties in Mississauga, Barrie and Orillia to Credit Valley Cable TV/FM Limited for a total purchase price of approximately \$5,800,000, such agreement being cancellable by IWC in certain circumstances.

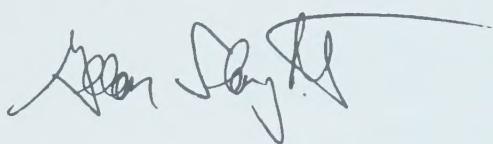
Both of the above agreements were conditional upon the approval of the CRTC. Applications for the approval of both transactions were heard at a public hearing in Ottawa commencing on November 15, 1977. On December 28, 1977 the CRTC denied the application by Selkirk to purchase the shares of IWC, but conditionally approved the sale of IWC's cable properties to Credit Valley Cable TV/FM Limited.

Your company has agreed to proceed with the sale of the Cable Division, providing Credit Valley Cable TV/FM Limited satisfies the requirements of the CRTC. A decision on this transaction is expected within the next few weeks.

In view of indications from the CRTC that transfer of the licence for CILQ-FM is premature, the principal shareholders of IWC have decided not to solicit alternate purchasers for their shares at this time.

Further information on the plans of your company will be announced shortly and notice of our Annual Meeting will be mailed to you separately.

The Interim Report for the first quarter of fiscal 1978 is enclosed and we are pleased to report that both our Radio and Cable Divisions are well ahead of the same period of last year.



President

January 17, 1978

Consolidated Balance Sheet

IWC COMMUNICATIONS LIMITED (Incorporated under the laws of Ontario)

ASSETS	August 31	
	1977	1976
Current:		
Bank deposit receipts	\$ 4,650,000	\$ 46,860
Accounts receivable	908,217	582,262
Deposits, prepaid expenses and other	96,711	97,316
Net assets of Radio CFOX sold, at net realizable value (note 3)	395,380	
Total current assets	6,050,308	726,438
 Investment in debentures of Global Communications Limited, at cost (note 2)		3,496,500
 Fixed, at cost (note 5)	8,729,481	7,379,049
Less accumulated depreciation	3,845,440	3,418,526
	4,884,041	3,960,523
 Other:		
Excess of purchase price of shares and assets of subsidiaries over estimated fair value of underlying net tangible assets at dates of acquisition	3,876,610	4,742,461
Deferred FM station development costs (note 1(c))	148,923	
Deferred frequency change costs (note 1(c))	186,429	93,473
Sundry other assets	63,370	57,145
	4,275,332	4,893,079
	<u>\$ 15,209,681</u>	<u>\$ 13,076,540</u>

LIABILITIES	August 31	
	1977	1976
Current:		
Bank indebtedness	\$ 74,572	\$ 319,585
Accounts payable and accrued charges	570,498	514,722
Income and other taxes payable	143,466	212,650
Deferred subscription revenue	364,634	303,620
Principal amounts of long-term liabilities due within one year (note 6)	18,864	380,026
Total current liabilities	1,172,034	1,730,603
Long-term liabilities (note 6)		416,384
Deferred income taxes	616,900	329,100
Shareholders' equity (notes 7 and 10):		
Capital —		
Authorized:		
10,000,000 shares without par value		
Issued:		
7,247,037 shares	7,788,452	7,788,452
Retained earnings	5,632,295	2,812,001
	13,420,747	10,600,453
	<u><u>\$15,209,681</u></u>	<u><u>\$13,076,540</u></u>

On behalf of the Board:

Allan Slaight, Director

John W. Hardie, Director

Consolidated Statement of Income

IWC COMMUNICATIONS LIMITED

	Year ended August 31	
	1977	1976
		(restated—note 3)
Revenue	\$5,002,983	\$4,590,695
Expenses:		
Selling, programme, technical and administrative	3,561,124	2,849,510
Interest—long-term debt	57,069	97,605
—other	29,570	22,436
Depreciation	690,531	602,984
Amortization of deferred costs	7,838	22,692
	4,346,132	3,595,227
Income from continuing operations (note 4)	656,851	995,468
Interest income:		
On Global 1974 interest debentures (note 2)	206,574	386,420
On Global 1974 income debentures (note 2)	153,000	
On bank deposit receipts	172,502	
	532,076	386,420
Income before the undernoted	1,188,927	1,381,888
Income taxes	528,700	674,500
Income before loss from discontinued operations and extraordinary items	660,227	707,388
Loss from discontinued operations of Radio CFOX, net of related income tax recoveries of \$156,000 (1976 — \$229,000) (note 3)	(169,022)	(252,232)
Income before extraordinary items	491,205	455,156

continued—

Year ended August 31

1977

1976

Extraordinary items:

Gain on disposal of interest in Global Communications Limited, less related income taxes of \$ 783,000 (note 2)	2,330,940	
Provision for loss on sale of Radio CFOX, net of related income tax recoveries of \$444,000 (note 3)	(517,594)	
Recovery on final wind-up of former subsidiary, less related income taxes of \$ 10,000	31,343	
Income tax reductions (\$ 562,400) resulting from carry forward of prior years' losses, less, in 1977, write-off (\$ 78,000) of deferred income taxes recorded in prior year (note 8)	484,400	51,400
	<hr/>	<hr/>
Net income for the year	\$ 2,820,294	\$ 506,556
	<hr/>	<hr/>

Net income per share:

Before loss from discontinued operations and extraordinary items	9.1¢	9.8¢
Loss on discontinued operations	(2.3)	(3.5)
	<hr/>	<hr/>
Before extraordinary items	6.8	6.3
Extraordinary items	32.1	0.7
	<hr/>	<hr/>
For the year	38.9¢	7.0¢
	<hr/>	<hr/>

Consolidated Statement of Retained Earnings

IWC COMMUNICATIONS LIMITED

	Year ended August 31	
	1977	1976
Retained earnings, beginning of year	\$2,812,001	\$2,311,027
Add net income for the year	2,820,294	506,556
Deduct 15% tax paid by subsidiary corporation on its 1971 undistributed income on hand		(5,582)
Retained earnings, end of year	<u>\$5,632,295</u>	<u>\$2,812,001</u>

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of IWC Communications Limited:

We have examined the consolidated balance sheet of IWC Communications Limited as at August 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at August 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
November 30, 1977.

CLARKSON, GORDON & CO.
Chartered Accountants

Consolidated Statement of Changes in Financial Position

IWC COMMUNICATIONS LIMITED

	Year ended August 31	
	1977	1976
Source of funds:		(restated—note 3)
Income from continuing operations and investments	\$ 660,227	\$ 707,388
Charges not affecting working capital —		
Depreciation	690,531	602,984
Amortization of deferred costs	7,838	22,692
Deferred income taxes	209,800	271,500
Funds from continuing operations and investments	<u>1,568,396</u>	<u>1,604,564</u>
Proceeds on sale of interest in Global Communications Limited, less related costs of \$72,660 and income taxes of \$783,000 (note 2)	<u>5,829,440</u>	<u>3,500</u>
Sale of Radio CFOX (note 3) —		
Net realizable value of non-current assets sold	386,185	
Tax credits realized in year due to sale	195,000	
Less funds applied to Radio CFOX operations, after adjusting for non-funds items included therein (depreciation in 1977 of \$12,995 (1976 — \$12,149); deferred income taxes in 1976 of \$141,000)	<u>(211,194)</u>	<u>(381,083)</u>
	<u>369,991</u>	<u>(381,083)</u>
Recovery on final wind-up of former subsidiary, less related income taxes of \$10,000	31,343	
Current income tax reductions arising from carry forward of prior years' losses	<u>562,400</u>	<u>51,400</u>
Total funds provided	<u>8,361,570</u>	<u>1,278,381</u>
Application of funds:		
Reduction of long-term liabilities	416,384	260,026
Purchase of fixed assets	1,782,787	802,578
Deferred frequency change costs	92,956	93,473
FM station development costs deferred	156,761	
Additional investment in Radio CFOX Inc.		50,000
15% tax paid by subsidiary on its 1971 undistributed income on hand		5,582
Increase in sundry other assets	<u>30,243</u>	<u>16,584</u>
Total funds applied	<u>2,479,131</u>	<u>1,228,243</u>
Excess of funds provided over funds applied	5,882,439	50,138
Working capital (deficiency), beginning of year	<u>(1,004,165)</u>	<u>(1,054,303)</u>
Working capital (deficiency), end of year	<u>\$4,878,274</u>	<u>\$(1,004,165)</u>
Represented by:		
Current assets	\$ 6,050,308	\$ 726,438
Less current liabilities	<u>1,172,034</u>	<u>1,730,603</u>
	<u>\$4,878,274</u>	<u>\$(1,004,165)</u>

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

IWC COMMUNICATIONS LIMITED

1. Summary of accounting policies

The following summary of accounting policies of IWC Communications Limited ("IWC") and its subsidiaries is set forth to facilitate the understanding of data presented in these financial statements:

(a) Principles of consolidation—

The consolidated financial statements include the accounts of the corporation and its subsidiaries, all of which are wholly-owned, as follows:

CFGM Broadcasting Limited
Sarnia Broadcasting (1964) Limited
Radio CFOX Inc. (see note 3)
Terra Communications Limited (see note 4)
Barrie Cable TV Limited (see note 4)
Orillia Cable TV Limited (see note 4)
Suburban York Sales Limited

The wholly-owned subsidiary, 288265 Ontario Limited, commenced wind-up procedures during the year, and its assets were distributed to IWC.

The excess of the purchase price of the shares and assets of the subsidiaries over the fair values assigned to their net tangible assets at dates of acquisition is included with other assets in the consolidated balance sheet. The corporation's policy is not to amortize this excess, which relates to subsidiaries purchased prior to 1974, so long as there is no evidence of impairment in value of such subsidiaries.

As a result of the sale of the radio operations of Radio CFOX (see note 3), the excess relating thereto was written down during the year, and is included, together with the other assets of the Radio CFOX operations, in current assets in the accompanying consolidated balance sheet at August 31, 1977, at net realizable value.

(b) Depreciation—

Depreciation is provided at rates and on bases designed to amortize the cost of fixed assets over their estimated useful lives, as follows:

	Rate	Basis
Buildings	2½%-10%	Straight-line, or
	10%	Diminishing balance
Radio and CATV plant	10%-15%	Straight-line
Equipment, vehicles and other	10%	Straight-line, or
	20%-30%	Diminishing balance

(c) Deferred FM station development costs and CFGM frequency change costs—

Expenditures (other than on fixed assets) incurred in connection with the development of the corporation's new FM station in Toronto ("CILQ") and CFGM's planned frequency change (see also note 9(a)) have been deferred and are being amortized on a straight-line basis over five and ten year periods respectively.

(d) Income taxes—

Deferred income taxes are provided on timing differences between accounting income and income for tax purposes. These differences arise because certain amounts claimed for tax purposes (mainly depreciation of fixed assets and amortization of

deferred costs) are in excess of those written in the accounts.

2. Sale of interest in Global Communications Limited

On March 22, 1977 IWC sold its interest in Global Communications Limited ("Global"), consisting of 1974 interest and income debentures, and options on certain of Global's shares. The aggregate cost to IWC of this interest was \$3,496,500. The resulting gain on sale of \$2,330,940, after deducting costs of \$72,660 on sale and related income taxes of \$783,000, is included as an extraordinary item in the accompanying consolidated statement of income for the 1977 year.

3. Sale of Radio CFOX radio operations

During May, 1977 IWC entered into an agreement to sell the radio assets and operations of Radio CFOX, subject to regulatory approval. The transaction was subsequently approved and closed on September 15, 1977.

An estimated loss of \$517,594 was incurred on the sale, after deducting related income tax recoveries of \$444,000, for which full provision has been made as an extraordinary item in the accompanying consolidated statement of income for the 1977 fiscal year.

The net realizable value of the operating assets of Radio CFOX (including a \$203,000 deferred income tax recovery arising on sale, which is expected to be realized during the 1978 fiscal year) is included with current assets in the consolidated balance sheet at August 31, 1977. The results of the radio operations of Radio CFOX for the nine months ended May 31, 1977 are shown separately as a "loss from discontinued operations of Radio CFOX" in the accompanying consolidated statement of income, with the fiscal 1976 results reclassified from amounts previously reported to conform with such presentation. Operating losses for the period from June 1, 1977 to September 15, 1977 have been fully provided for in the determination of the above provision for loss on sale shown as an extraordinary item.

Gross revenue of Radio CFOX was \$258,572 in the 1977 fiscal year (\$240,104 in 1976).

4. Agreement subsequent to year end to sell cable television division

Subsequent to August 31, 1977 IWC entered into an agreement to sell the operating assets of Terra Communications Limited and the shares of Barrie Cable TV Limited and Orillia Cable TV Limited. The sale agreement is subject to the approval of the Canadian Radio-television and Telecommunications Commission ("CRTC") (with hearings having been held in this connection during November, 1977), and can be cancelled by IWC in certain circumstances.

In the event that the transaction is completed, IWC will receive aggregate proceeds on sale of approximately \$5,800,000, consisting of cash of approximately \$4,000,000 and fully-secured non-interest bearing notes for the balance due in instalments during 1978. It is estimated that IWC will realize a

net-of-tax gain of approximately \$1,250,000 on the transaction.

The total assets of the cable television division included in the accompanying consolidated balance sheet at August 31, 1977 were \$4,796,574, and net assets employed were \$3,808,246, after deducting \$988,328 of liabilities at such date. Gross revenues of the division, which contributed significantly to the operating income of the corporation in each of the 1977 and 1976 fiscal years, were \$2,330,211 and \$2,045,439, respectively, in such years.

5. Fixed assets

The cost of fixed assets as set out in the accompanying consolidated balance sheet is comprised as follows:

	August 31	
	1977	1976
Land	\$ 330,163	\$ 410,103
Buildings	161,569	147,277
Radio and CATV plant	7,417,435	6,158,563
Equipment, vehicles and other	820,314	663,106
Total, at cost	<u>\$8,729,481</u>	<u>\$7,379,049</u>

6. Long-term liabilities

Details of long-term liabilities are as follows:

	August 31	
	1977	1976
Term bank loans		\$ 697,500
Provision for settlement costs under employment contract, payable without interest over a five-year period to 1978	\$ 17,000	47,000
Mortgages	1,864	51,910
	<u>18,864</u>	<u>796,410</u>
Less principal amounts due within one year included with current liabilities	<u>18,864</u>	<u>380,026</u>
Long-term liabilities	<u>—</u>	<u>\$ 416,384</u>

7. Share capital

(a) Share options—

Options to acquire a total of 26,600 shares of IWC granted previously to employees and officers and exercisable at prices varying from \$2.47 to \$3.27 per share are expected to be relinquished in the 1978 fiscal year.

(b) Restrictions on share transfers—

The board of directors of IWC may refuse to permit the registration of a transfer of any shares in the capital of the corporation that would, in the opinion of the directors, adversely affect the status of the corporation, or any subsidiary thereof, as a corporation eligible to obtain, maintain, amend or renew a licence to carry on a "Broadcasting Undertaking" (as that term is defined in the Broadcasting Act (Canada)).

8. Income taxes

Subsequent to August 31, 1977, certain of the shareholders of IWC entered into an agreement to sell a controlling interest in the corporation, subject to regulatory approval being obtained and certain other conditions being met. In the event the sale is

completed, accumulated operating losses of a subsidiary aggregating \$225,000 and expiring in 1981 will cease to be available for carry-forward. Accordingly, deferred income tax charges (\$78,000) recorded in a prior year with respect to a portion of such losses have been written off as an extraordinary item in the consolidated statement of income for the 1977 year, and no recognition is given in these financial statements to related future tax reductions which might otherwise result from the application of these losses.

9. Commitments and contingent liabilities

(a) FM station development costs and CFGM frequency change costs—

As at August 31, 1977, additional expenditures to complete the FM facility and the CFGM frequency change are expected to be approximately \$80,000 and \$150,000 respectively.

(b) Lease obligations—

Minimum current net annual lease payments for premises aggregate \$84,200, with varying terms to 1997. Payments under leases and agreements for rental of cable distribution facilities currently aggregate approximately \$74,000 per annum. Costs under non-cancellable leases and agreements for rental of radio transmission facilities aggregate currently approximately \$63,000 per annum, with terms to 1995.

(c) Contingent liability under lease—

The corporation is contingently liable for premises rentals of approximately \$28,000 per annum to April, 1985, under a lease agreement assumed by a third party.

10. Anti-inflation legislation

The corporation is subject to limitations on the payment of dividends under the Anti-Inflation Act.

11. Statutory information

Aggregate remuneration paid or payable to directors and senior officers of IWC (defined by The Business Corporations Act, Ontario, to include the five highest paid employees) amounted to \$410,900 in fiscal 1977 (1976—\$308,900), including certain retiring allowances in 1977.



